Index Investing: 3 Reasons Why Index Investing Makes It Easy for You to Allocate Assets

Yvonne Ngai,
Head of Product Specialist

Yvonne: Hello everyone! The current pace of life is busy, and many people do not have time to keep up with market trends, so they hope to manage their assets in a flexible, convenient and time-saving way, which explains why passive investing has become increasingly popular in recent years.
Morningstar data shows that the asset under management (AUM) of index products listed in the United States has exceeded that of active funds managed by fund managers since 2023, and the current market share is 53%.[1] Therefore, today I would like to share with you the three advantages of using index funds for asset allocation compared to investing in individual stocks and active funds.

(1) Index products are simple
Compared with active funds, index products usually charge lower management fees and are more attractive to investors. The investment strategy of index products is simple and direct. By tracking the index, it is easy to obtain relevant information about the index. The list of constituent stocks and industry allocations is clear at a glance, making it very suitable for busy urbanites.

(2) Index funds have outperformed active funds over the past 10 years
One of the benefits of investing in funds over investing in individual stocks is diversification. Index funds and active funds can both diversify investments, so what is the difference in performance? Warren Buffett believes that over time, active investing will underperform simple index investing. The latest SPIVA report also has the same analysis. In the past 10 years, more than 80% of active equity funds in different markets have underperformed their benchmark indexes, reflecting that even if active equity funds have fund managers to do research and actively manage the portfolios, their long-term performance may not be as good as index funds.

(3) Asset allocation is more important than stock picking

Asset allocation plays an important role in investment returns. Quite a few academic studies have pointed out that approximately 90% of a portfolio’ s long-term returns depends on its asset allocation. In other words, appropriate asset allocation is more important than stock selection.

There are many index products on the market, covering different asset classes and markets. Therefore, investors can use index products for asset allocation and determine the proportion of asset categories and markets based on their personal risk appetite and their own needs. Hang Seng Investment also has different products, including fixed-income investment products with lower risks, such as US Treasury index funds, which have lower volatility and default risks, allowing investors to make appropriate defensive deployments while pursuing returns. For those seeking asset growth, it is advisable to pay attention to index funds in the stock market, including mainland China, Hong Kong, the United States, and Japan, each possessing distinct highlights and characteristics. Additionally, these index funds offer a variety of currency categories.

The most important consideration for investors is to understand their risk tolerance and financial needs. Selecting investment tools that align with the current life stage and objectives is crucial. Furthermore, diversifying investments across various asset classes, such as stocks, bonds, and commodities, is essential to achieve a balanced risk-return profile. Utilizing different index funds for asset allocation can help meet a range of financial requirements. Wishing all investors successful investing and see you next time!

Remark

1. Source: Morning Direct Asset Flows, as of 31 Dec 2024

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